PROCEDURE NO.

302

Revenue Recognition

In governmental funds, in which the modified accrual basis of accounting is used, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. The term *available* means collectible within the current period or soon enough thereafter to be used to pay the liabilities of the current period.

Generally, *available* is defined as collectible within 45, 60, or 90 days. However, to achieve comparability of reporting among California LEAs and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state aid apportionments, the California Department of Education has defined *available* as collectible within one year. See below for a discussion of revenue recognition for specific revenue sources.

In proprietary funds, in which the accrual basis of accounting is used, revenues are recognized as soon as they are earned.

LEAs receive revenue in one of two ways: (1) through *exchange transactions*, in which both parties exchange equal value, such as a contract for services; or (2) through *nonexchange transactions*, in which the LEA receives value without directly giving equal value in return, such as receipt of state apportionments, state or federal categorical grants, and local property taxes. Most revenues received by LEAs are the result of nonexchange transactions.

In governmental funds, recognition of revenues from exchange and exchange-like transactions occurs as soon as the exchange has occurred and the revenues become available.

Recognition of revenues from nonexchange transactions varies depending on the characteristics of the nonexchange transaction. GASB Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions*, which took effect in June 2000, defines four classes of nonexchange transactions:

- *Derived tax revenue* is from assessments imposed by governments on exchange transactions. Examples include sales tax or income tax. Derived tax revenues are recognized in the period when the underlying exchange transaction occurs and the resources are available. Typically, LEAs do not assess taxes or directly receive derived tax revenues.
- *Imposed nonexchange revenue* is from assessments by governments on nongovernmental entities, including individuals, other than assessments on exchange transactions. Examples include ad valorem property taxes and fines. Generally, using modified accrual accounting,

property tax revenues are recognized in the period for which they are assessed and become available. However, see below for discussion of revenue recognition for property taxes for California LEAs.

- *Government-mandated nonexchange revenue* is from a government at one level providing resources to a government at another level, requiring the recipient to use the resources for a specific purpose. An example is the state apportionment for providing required educational services. Under modified accrual, government-mandated nonexchange revenue is recognized when all applicable eligibility requirements have been met and the resources are available.
- *Voluntary nonexchange revenue* is from legislative or contractual agreements, other than exchange transactions, entered into willingly by two or more parties. Examples are donations, grants, or entitlements entered into by an LEA through an application process. Under modified accrual accounting, voluntary nonexchange revenue is recognized when all applicable eligibility requirements have been met and the resources are available.

Generally accepted accounting principles (GAAP) requires that when both parties to a nonexchange transaction are governments, recognition generally should be symmetrical. That is, when the provider government is required to recognize a liability, the recipient government should recognize an asset. GAAP further requires that when the provider is a government, an appropriation is essential to make enabling legislation effective for a particular period of time. A government does not have a liability to transmit resources under a particular program, and a recipient does not have a receivable, unless an appropriation for that program exists.

Where statute allows revenue recognition on a basis inconsistent with GAAP, LEAs should consult with their independent auditors. Depending on the materiality of the departure from GAAP, it could result in an audit adjustment or impact the opinion rendered by the auditor on the LEA's financial statements.

Policies for recognizing sources of revenue common to California LEAs are as follows:

1. Second Period to Annual Corrections for Revenue Limits and Other State Apportionments

Revenue limits and other state apportionments are government-mandated nonexchange transactions and are recognized when all eligibility requirements have been met. Second period to annual corrections for revenue limits and other state apportionments, either positive or negative, should be accrued at the end of the fiscal year.

For example, the annual calculation of the revenue limit (Form K-12 Annual) should be made and the LEA's actual tax receipts as reported by the county auditor (Form J-29) should be subtracted to determine the annual state aid to which the LEA is entitled. Any difference between the calculated annual state aid and the state aid received on the second principal apportionment is recorded as follows:

If the adjustment is positive, and more revenue is due than has been received, a receivable is recorded.

Date	Account	Debit	Credit
x-xx-xx	**Due from Grantor Governments** **01-0000-0-0000-0000-9290**	**xxxx**	
	State Aid **01-0000-0-0000-0000-8011**		**xxxx**
	To record the second period to annual adjustment to the state revenue limit apportionment		

If the adjustment is negative, and less revenue was due than was received, a payable is recorded.

Date	Account	Debit	Credit
x-xx-xx	**State Aid** **01-0000-0-0000-0000-8011**	**xxxx**	
	Due To Grantor Governments **01-0000-0-0000-0000-9590**		**xxxx**
	To record the second period to annual adjustment to the state revenue limit apportionment		

Under California's apportionment schedule, LEAs do not receive the amounts they accrue for adjustments to state aid until the following February. This is beyond the period normally defined as available. However, adjustments to state aid result from over- or under-collection of annual property taxes compared to the initial estimates on which state aid apportionments were based. Consequently, it might vary from one LEA to the next whether an LEA's accrual for adjustment to state aid is a payable or a receivable. It would be inconsistent for one LEA to accrue a payable for its adjustment to state aid, but for the next LEA not to accrue a receivable for its adjustment to state aid. In the interest of comparable revenue reporting among California LEAs, all LEAs should use the definition of *available* at the beginning of this procedure and should accrue their receivables for adjustments to state aid.

2. Prior Year Corrections to State Apportionment

Any corrections to state apportionments from amendments to prior years' state reports are reflected as revenue and accrued as accounts receivable or payable in the year in which the adjustment amounts become known and the amendments are filed, provided that the actual cash adjustments are expected to be made no later than the following fiscal year.

For example, if the LEA filed an amended second-period attendance report for the preceding year, the LEA would accrue the anticipated adjustment at the end of the current fiscal year even though the adjustment will not be received until the following February. The accrued revenue is recorded in a current year revenue account.

3. Property Taxes

California LEAs should recognize property tax revenues actually received, as reported on Form J-29-B, Report of Taxes Collected and Distributed—District or Form J-29-C, Report of Taxes Collected and Distributed—County. LEAs should make no accrual for property taxes receivable as of June 30.

While this may seem contrary to generally accepted accounting principles, it must be remembered that under California's unique Revenue Limit funding formula, an LEA's total Revenue Limit entitlement is funded through a combination of local property taxes and state aid. The amount of property taxes the LEA actually receives by June 30 is applied toward the total entitlement. The difference is funded through state aid. Recognition of only those property taxes received by June 30 is therefore appropriate because accruing additional property taxes receivable as of June 30, unless the LEA were to make an offsetting adjustment to its state aid accrual, would misstate the LEA's Revenue Limit entitlement. Making an offsetting adjustment to the state aid accrual would be unnecessarily burdensome for the LEA and would result in the accrual no longer matching the amount actually receivable from the state as reported on apportionment documents.

4. Mandated Costs Revenue

Mandated costs revenue does not become available until appropriated by the Legislature and approved by the Governor. Therefore, revenue from claims for mandated costs is recorded on a cash basis. However, if a known amount is received within 60 days of the close of the fiscal year, the LEA will accrue the amount as follows:

Date	*Account*	*Debit*	*Credit*
x-xx-xx	**Due from Grantor Governments** **01-0000-0-0000-0000-9290**	**xxxx**	
	Mandated Cost Reimbursements **01-0000-0-0000-0000-8550**		**xxxx**
	To accrue the mandated costs revenue due from the state		

5. **Deferred Maintenance Apportionment**

The Deferred Maintenance Apportionment is recognized in the year it is appropriated in the state Budget Act and apportioned to LEAs. The LEA's matching transfer to the Deferred Maintenance Fund is recognized in the year that it is made or accrued.

6. **Interest**

Interest revenue is accrued so that the amount earned during the four quarters of the fiscal year is reflected as revenue in that fiscal year.

7. **State Lottery Revenue**

The estimated fourth-quarter payment of state lottery revenue is accrued at the end of the fiscal year. The adjusting payment of lottery revenues from the prior year to current ADA is reflected as revenue in the year in which the adjusting payment is received.

8. **Categorical Funds Subject to Deferred Revenue**

LEAs commonly receive grant awards that are "reimbursement-type" or "expenditure-driven." These awards may be mandated by the government or may have been accepted voluntarily by the LEA. The eligibility requirements of these awards has not been met until the LEA has made the required expenditures of the grant within the time period specified by the grantor. Revenue is recognized in the period in which the qualifying expenditures are made. Cash received but unspent at the end of the fiscal period is booked as a liability, and revenue is reduced to the amount that has been expended. For example, if a $10,000 federal grant has been received, but only $8,125 has been expended by the end of the fiscal year, only $8,125 revenue is recognized:

Date	*Account*	*Debit*	*Credit*
x-xx-xx	**Revenue** **01-3XXX-0-0000-0000-8290**	**$ 1,875.00**	
	Deferred Revenues **01-3XXX-0-0000-0000-9650**		**$ 1,875.00**
	To reduce $10,000 revenue of the XYZ Grant by amount not expended		

9. **Categorical Funds Subject to Fund Balance**

LEAs commonly receive funds for which they have fulfilled specific eligibility requirements or have provided a particular service. For example, a district may be granted funds to transport students, to provide meals to students, or to offer supplemental classes to at-risk students. Once the LEA has provided these services, they have earned the revenue provided. Any unspent money may be carried to the next year to be expended for the same restricted purposes. Revenue is recognized in the period that the service is provided, and any carryover becomes a part of the LEA's ending fund balance.

Labels such as "grants" or "entitlements" are sometimes used for restricted categorical resources. These terms do not necessarily define the characteristics necessary for proper revenue recognition. Care should be taken to understand the characteristics of each resource to determine how revenue should be recognized by the LEA.